

**Washington State Auditor's Office**  
**Financial Statements and Federal Single Audit Report**

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**Yelm Community School District No. 2**  
**Thurston County**

Audit Period  
**September 1, 2010 through August 31, 2011**

**Report No. 1007565**

Issue Date  
**April 30, 2012**



WASHINGTON  
**BRIAN SONNTAG**  
STATE AUDITOR



**Washington State Auditor  
Brian Sonntag**

April 30, 2012

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

***Report on Financial Statements and Federal Single Audit***

Please find attached our report on Yelm Community School District No. 2's financial statements and compliance with federal laws and regulations.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

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Thurston County  
September 1, 2010 through August 31, 2011**

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# Federal Summary

## Yelm Community School District No. 2 Thurston County September 1, 2010 through August 31, 2011

The results of our audit of Yelm Community School District No. 2 are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

### **FINANCIAL STATEMENTS**

An unqualified opinion was issued on the financial statements.

#### **Internal Control Over Financial Reporting:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the District.

### **FEDERAL AWARDS**

#### **Internal Control Over Major Programs:**

- **Significant Deficiencies:** We reported no deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.
- **Material Weaknesses:** We identified no deficiencies that we consider to be material weaknesses.

We issued an unqualified opinion on the District's compliance with requirements applicable to each of its major federal programs.

We reported no findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

***Identification of Major Programs:***

The following were major programs during the period under audit:

<u>CFDA No.</u>	<u>Program Title</u>
10.553	Child Nutrition Cluster - School Breakfast Program
10.555	Child Nutrition Cluster - National School Lunch Program
84.010	Title I Part A
84.027	Special Education Cluster - Grants to States (IDEA, Part B)
84.173	Special Education Cluster - Preschool Grants (IDEA Preschool)
84.389	ARRA - Title I Cluster, Part A (Recovery Act)
84.391	ARRA - Special Education Cluster, IDEA Part B (Recovery Act)
84.394	ARRA - State Fiscal Stabilization Fund - Education State Grants (Recovery Act)
84.410	Education Jobs Fund

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was \$300,000.

The District did not qualify as a low-risk auditee under OMB Circular A-133.

# Schedule of Prior Federal Audit Findings

## Yelm Community School District No. 2 Thurston County September 1, 2010 through August 31, 2011

This schedule presents the status of federal findings reported in prior audit periods. The status listed below is the representation of Yelm Community School District No. 2. The State Auditor's Office has reviewed the status as presented by the District.

<b>Audit Period:</b> 9/1/09 – 8/31/10	<b>Report Reference No:</b> 1005470	<b>Finding Reference No:</b> 1	<b>CFDA Number(s):</b> 84.027
<b>Federal Program Name and Granting Agency:</b> Special Education – Grants to States – US Department of Education		<b>Pass-Through Agency Name:</b> Office of Superintendent of Public Instruction	
<b>Finding Caption:</b> The District's internal controls were inadequate to ensure it received the correct amount of Safety Net funding.			
<p><b>Background:</b> School districts may apply for Special Education Safety Net money through the state OSPI. Districts spend the money to educate specific special needs students when the cost to do so exceeds available resources. These awards are made up of state and federal funding.</p> <p>Districts apply for these awards mid-year, based on projections of expenditures and resources. During fiscal ending year 2010, the District received \$180,067 in Safety Net money: \$65,794 in state money and \$114,273 in federal money.</p>			
<p><b>Status of Corrective Action: (check one)</b></p> <div style="display: flex; justify-content: space-between;"> <span><input checked="" type="checkbox"/> Fully Corrected</span> <span><input type="checkbox"/> Partially Corrected</span> <span><input type="checkbox"/> No Corrective Action Taken</span> <span><input type="checkbox"/> Finding is considered no longer valid</span> </div>			
<p><b>Corrective Action Taken:</b>  <i>The District now tracks expenditures both overall and by individual student to ensure it is not over funded for Safety Net. The District has not applied for additional Safety Net funds, and the situation is unlikely to occur in future years because there will be no more ARRA funding.</i> </p>			

# **Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters in Accordance with *Government Auditing Standards***

**Yelm Community School District No. 2  
Thurston County  
September 1, 2010 through August 31, 2011**

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

We have audited the financial statements of Yelm Community School District No. 2, Thurston County, Washington, as of and for the year ended August 31, 2011, and have issued our report thereon dated April 18, 2012.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## ***INTERNAL CONTROL OVER FINANCIAL REPORTING***

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

## **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", written in a cursive style.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

April 18, 2012



# **Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133**

**Yelm Community School District No. 2  
Thurston County  
September 1, 2010 through August 31, 2011**

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

## **COMPLIANCE**

We have audited the compliance of Yelm Community School District No. 2, Thurston County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the Federal Summary. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2011.

## ***INTERNAL CONTROL OVER COMPLIANCE***

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of management, the Board of Directors, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

April 18, 2012

# **Independent Auditor's Report on Financial Statements**

## **Yelm Community School District No. 2 Thurston County September 1, 2010 through August 31, 2011**

Board of Directors  
Yelm Community School District No. 2  
Yelm, Washington

We have audited the accompanying financial statements of Yelm Community School District No. 2, Thurston County, Washington, as of and for the year ended August 31, 2011, as listed on page 10. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the District prepares its financial statements using accounting practices prescribed by Washington State statutes and the *Accounting Manual for Public Schools in the State of Washington*, which demonstrates compliance with the regulatory basis of accounting which differs from accounting principles generally accepted in the United States of America. The differences between the regulatory basis of accounting and the accounting principles generally accepted in the United States of America are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Yelm Community School District No. 2, as of August 31, 2011, and the changes in financial position thereof for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The accompanying Schedule of Long-Term Debt is also presented for purposes of additional analysis as required by the prescribed accounting manual. These schedules are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended for the information and use of the governing body and management of the District. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink, appearing to read "Brian Sonntag", with a stylized, flowing script.

**BRIAN SONNTAG, CGFM**  
STATE AUDITOR

April 18, 2012

# **Financial Section**

## **Yelm Community School District No. 2 Thurston County September 1, 2010 through August 31, 2011**

### ***FINANCIAL STATEMENTS***

Balance Sheet – Governmental Funds – 2011  
Statement of Revenues, Expenditures and Changes in Fund Balance – Governmental  
Funds – 2011  
Statement of Fiduciary Net Assets – Fiduciary Funds – 2011  
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds – 2011  
Notes to Financial Statements – 2011

### ***SUPPLEMENTARY INFORMATION***

Schedule of Long-Term Debt – 2011  
Schedule of Expenditures of Federal Awards – 2011  
Notes to the Schedule of Expenditures of Federal Awards – 2011

## Balance Sheet

## Governmental Funds

August 31, 2011

ASSETS:	ASSETS:					Total			
	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund			
Cash and Cash Equivalents	5,597,534.90	332,737.20	1,880,677.06	1,680,109.37	158,570.37	10,851.16	9,660,480.06		
Minus Warrants Outstanding	-832,570.28	-3,250.44	0.00	0.00	0.00	0.00	-835,820.72		
Taxes Receivable	4,188,422.20		2,216,072.04	0.00	0.00		6,404,494.24		
Due From Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Due From Other Governmental Units	605,165.76	0.00	0.00	0.00	0.00	0.00	605,165.76		
Accounts Receivable	118,949.27	0.00	0.00	0.00	7,169.50	0.00	126,118.77		
Interfund Loans Receivable	0.00			0.00			0.00		
Accrued Interest Receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Inventory	437,913.23	42,360.71					480,273.94		
Prepaid Items	0.00	0.00		0.00	0.00	0.00	0.00		
Investments	0.00	0.00	0.00	0.00	0.00	0.00	0.00		
Investments/Cash With Trustee	0.00		0.00	0.00	0.00	0.00	0.00		
Investments-Deferred	0.00		0.00	0.00	0.00	0.00	0.00		
Compensation									
Self-Insurance Security	0.00						0.00		
Deposit									
<b>TOTAL ASSETS</b>	<b>10,115,415.08</b>	<b>371,847.47</b>	<b>4,096,749.10</b>	<b>1,680,109.37</b>	<b>165,739.87</b>	<b>10,851.16</b>	<b>16,440,712.05</b>		
<b>LIABILITIES:</b>									
Accounts Payable	739,772.29	73,059.76	0.00	9,963.98	0.00	0.00	822,796.03		
Contracts Payable Current	0.00	0.00		0.00	0.00	0.00	0.00		
Accrued Interest Payable			0.00				0.00		
Accrued Salaries	66,236.16	0.00		0.00			66,236.16		
Revenue Anticipation Notes Payable	0.00		0.00	0.00	0.00		0.00		
Payroll Deductions and Taxes Payable	166,024.04	0.00		0.00			166,024.04		
Due To Other Governmental Units	0.00	0.00		0.00	0.00	0.00	0.00		
Deferred Compensation Payable	0.00			0.00			0.00		
Estimated Employee Benefits Payable	0.00						0.00		
Due To Other Funds	0.00	0.00	0.00	0.00	0.00	0.00	0.00		

The accompanying notes are an integral part of this financial statement.

Yelm School District No. 002

Balance Sheet

Governmental Funds  
August 31, 2011

<b>LIABILITIES:</b>	<b>General Fund</b>	<b>ASB Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects Fund</b>	<b>Transportation Vehicle Fund</b>	<b>Permanent Fund</b>	<b>Total</b>
Interfund Loans Payable	0.00		0.00	0.00	0.00		0.00
Deposits	0.00	0.00		0.00			0.00
Matured Bonds Payable			0.00				0.00
Matured Bond Interest Payable			0.00				0.00
Arbitrage Rebate Payable	0.00		0.00	0.00	0.00		0.00
Deferred Revenue	4,188,422.20		2,216,072.04	0.00	0.00	0.00	6,404,494.24
<b>TOTAL LIABILITIES</b>	<b>5,160,454.69</b>	<b>73,059.76</b>	<b>2,216,072.04</b>	<b>9,963.98</b>	<b>0.00</b>	<b>0.00</b>	<b>7,459,550.47</b>
<b>FUND BALANCE:</b>							
Nonspendable Fund Balance	0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00
Restricted Fund Balance	8,000.00	9,000.00	0.00	1,282,163.47	0.00	0.00	1,299,163.47
Committed Fund Balance	1,896,307.00	0.00	0.00	0.00	0.00	0.00	1,896,307.00
Assigned Fund Balance	750,000.00	289,787.71	1,880,677.06	387,981.92	165,739.87	851.16	3,475,037.72
Unassigned Fund Balance	2,300,653.39	0.00	0.00	0.00	0.00	0.00	2,300,653.39
<b>TOTAL FUND BALANCE</b>	<b>4,954,960.39</b>	<b>298,787.71</b>	<b>1,880,677.06</b>	<b>1,670,145.39</b>	<b>165,739.87</b>	<b>10,851.16</b>	<b>8,981,161.58</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>10,115,415.08</b>	<b>371,847.47</b>	<b>4,096,749.10</b>	<b>1,680,109.37</b>	<b>165,739.87</b>	<b>10,851.16</b>	<b>16,440,712.05</b>

The accompanying notes are an integral part of this financial statement.

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2011

REVENUES:	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Local	9,189,371.44	728,961.42	4,221,669.53	61,213.40	128,860.06		14,330,075.85
State	32,608,630.08		0.00	0.00	217,722.83		32,826,352.91
Federal	3,970,278.53		0.00	0.00	0.00		3,970,278.53
Federal Stimulus	2,233,152.26						2,233,152.26
Other	8,040.77			0.00	0.00	135.60	8,176.37
<b>TOTAL REVENUES</b>	<b>48,009,473.08</b>	<b>728,961.42</b>	<b>4,221,669.53</b>	<b>61,213.40</b>	<b>346,582.89</b>	<b>135.60</b>	<b>53,368,035.92</b>
EXPENDITURES:							
CURRENT:							
Regular Instruction	23,224,444.71						23,224,444.71
Federal Stimulus	2,102,961.43						2,102,961.43
Special Education	5,683,084.80						5,683,084.80
Vocational Education	2,082,787.63						2,082,787.63
Skills Center	0.00						0.00
Compensatory Programs	1,620,405.05						1,620,405.05
Other Instructional Programs	214,670.62						214,670.62
Community Services	3,287.73						3,287.73
Support Services	11,343,385.79						11,343,385.79
Student Activities/Other		728,654.08				0.00	728,654.08
CAPITAL OUTLAY:							
Sites				47,961.56			47,961.56
Building				299,601.96			299,601.96
Equipment				0.00			0.00
Energy				33,325.77			33,325.77
Transportation Equipment					224,283.72		224,283.72
Other	481,806.45						481,806.45
DEBT SERVICE:							
Principal	0.00		2,935,239.91	0.00	0.00		2,935,239.91
Interest and Other Charges	0.00		1,563,416.39	0.00	0.00		1,563,416.39
<b>TOTAL EXPENDITURES</b>	<b>46,756,834.21</b>	<b>728,654.08</b>	<b>4,498,656.30</b>	<b>380,889.29</b>	<b>224,283.72</b>	<b>0.00</b>	<b>52,589,317.60</b>
REVENUES OVER (UNDER) EXPENDITURES	1,252,638.87	307.34	-276,986.77	-319,675.89	122,299.17	135.60	778,718.32

The accompanying notes are an integral part of this financial statement.



Yelm School District No. 002

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended August 31, 2011

OTHER FINANCING SOURCES (USES) :

	General Fund	ASB Fund	Debt Service Fund	Capital Projects Fund	Transportation Vehicle Fund	Permanent Fund	Total
Bond Sales & Refunding Bond Sales	0.00		41,114,618.95	0.00	0.00		41,114,618.95
Long-Term Financing	0.00			0.00	0.00		0.00
Transfers In	0.00		503,857.00	0.00	0.00		503,857.00
Transfers Out (GL 536)	-321,995.00		0.00	0.00	-181,862.00	0.00	-503,857.00
Other Financing Uses (GL 535)	0.00		-40,824,842.89	0.00	0.00		-40,824,842.89
Other	0.00		0.00	0.00	0.00		0.00
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-321,995.00</b>		<b>793,633.06</b>	<b>0.00</b>	<b>-181,862.00</b>	<b>0.00</b>	<b>289,776.06</b>
<b>EXCESS OF REVENUES/OTHER FINANCING SOURCES</b>	<b>930,643.87</b>	<b>307.34</b>	<b>516,646.29</b>	<b>-319,675.89</b>	<b>-59,562.83</b>	<b>135.60</b>	<b>1,068,494.38</b>
<b>OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>							
<b>BEGINNING TOTAL FUND BALANCE</b>	<b>4,024,316.52</b>	<b>298,480.37</b>	<b>1,364,030.77</b>	<b>1,989,821.28</b>	<b>225,302.70</b>	<b>10,715.56</b>	<b>7,912,667.20</b>
Prior Year(s) Corrections or Restatements	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>ENDING TOTAL FUND BALANCE</b>	<b>4,954,960.39</b>	<b>298,787.71</b>	<b>1,880,677.06</b>	<b>1,670,145.39</b>	<b>165,739.87</b>	<b>10,851.16</b>	<b>8,981,161.58</b>

The accompanying notes are an integral part of this financial statement.

Yelm School District No. 002  
Statement Of Fiduciary Net Assets

Fiduciary Funds

August 31, 2011

	Private		
	Purpose Trust	Other Trust	
<b>ASSETS:</b>			
Imprest Cash	0.00	0.00	
Cash On Hand	0.00	0.00	
Cash On Deposit with Cty Treas	779.08	0.00	
Minus Warrants Outstanding	0.00	0.00	
Due From Other Funds	0.00	0.00	
Accounts Receivable	0.00	0.00	
Accrued Interest Receivable	0.00	0.00	
Investments	0.00	0.00	
Investments/Cash With Trustee	0.00	0.00	
Other Assets	0.00	0.00	
Capital Assets, Land	0.00		
Capital Assets, Buildings	0.00		
Capital Assets, Equipment	0.00	0.00	
Accum Depreciation, Buildings	0.00		
Accum Depreciation, Equipment	0.00	0.00	
<b>TOTAL ASSETS</b>	<b>779.08</b>	<b>0.00</b>	
<b>LIABILITIES:</b>			
Accounts Payable	0.00	0.00	
Due To Other Funds	0.00	0.00	
<b>TOTAL LIABILITIES</b>	<b>0.00</b>	<b>0.00</b>	
<b>NET ASSETS:</b>			
<b>Net assets held in trust for:</b>			
Restricted for Other Items	0.00	0.00	
Restricted for Self Insurance		0.00	
Restricted for Uninsured Risks		0.00	
Nonspendable -- Trust Principal	0.00	0.00	
Committed to Other Purposes	0.00	0.00	
Assigned to Fund Purposes	779.08	0.00	
Unassigned Fund Balance	0.00	0.00	
<b>TOTAL NET ASSETS</b>	<b>779.08</b>	<b>0.00</b>	

The accompanying notes are an integral part of this financial statement.

Yelm School District No. 002  
Statement of Changes in Fiduciary Net Assets  
Fiduciary Funds

For the Year Ended August 31, 2011

<b>ADDITIONS:</b>			
Contributions:			
Private Donations	0.00	0.00	
		Employer	0.00
		Members	0.00
Other	0.00	0.00	
<b>TOTAL CONTRIBUTIONS</b>	<b>0.00</b>	<b>0.00</b>	
<b>Investment Income:</b>			
Net Appreciation (Depreciation) in Fair Value	0.00	0.00	
Interest and Dividends	9.73	0.00	
Less Investment Expenses	0.00	0.00	
Net Investment Income	9.73	0.00	
<b>Other Additions:</b>			
Rent or Lease Revenue	0.00	0.00	
Total Other Additions	0.00	0.00	
<b>TOTAL ADDITIONS</b>	<b>9.73</b>	<b>0.00</b>	
<b>DEDUCTIONS:</b>			
Benefits		0.00	
Refund of Contributions	0.00	0.00	
Administrative Expenses	0.00	0.00	
Scholarships	0.00		
Other	0.00	0.00	
<b>TOTAL DEDUCTIONS</b>	<b>0.00</b>	<b>0.00</b>	
Net Increase (Decrease)	9.73	0.00	
Net Assets--Beginning	769.35	0.00	
Prior Year(s) Corrections or Restatements	0.00	0.00	
<b>NET ASSETS--ENDING</b>	<b>779.08</b>	<b>0.00</b>	

The accompanying notes are an integral part of this financial statement.

**Yelm Community Schools**  
**Notes to Financial Statements**  
**September 1, 2010 through August 31, 2011**

**Note 1 Summary of Significant Accounting Policies**

a. Reporting Entity

The Yelm Community School District is a municipal corporation organized pursuant to Title 28A *Revised Code of Washington* (RCW) for the purpose of providing public school services to students in grades K–12. Oversight responsibility for the district's operations is vested with the independently elected board of directors. Management of the district is appointed by and is accountable to the board of directors. Fiscal responsibility, including budget authority and the power to set fees, levy property taxes, and issue debt consistent with provisions of state statutes, also rests with the board of directors.

For financial reporting purposes, Yelm Community Schools includes all funds and organizations that are controlled by or dependent on the district's board of directors. Control by or dependence on the district was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the general credit of the district, obligation of the district to finance any deficits that may occur, or receipt of significant subsidies from the district.

b. Basis of Presentation—Fund Accounting

The Yelm Community School District presents governmental fund financial statements and related notes on the modified accrual basis of accounting as prescribed by generally accepted accounting principles (GAAP) and required by its regulatory agencies, the Office of Superintendent of Public Instruction and the State Auditor's Office. However, the district elects to not present districtwide financial statements, and management's discussion and analysis, which are departures from GAAP. Long-term debt is reported on a required supplementary schedule. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. The regulatory agencies require all funds be presented as major funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. The various funds in the report are grouped into governmental and fiduciary funds as follows:

**GOVERNMENTAL FUNDS**

**General Fund**

This fund is used to account for all expendable financial resources, except those required to be accounted for in another fund. In keeping with the principle of as few funds as necessary, food services, maintenance, data processing, printing, and transportation activities are included in the fund.

**Capital Projects Funds**

These funds account for financial resources to be used for the construction or acquisition of major capital assets. The capital projects fund type consists of the Capital Projects Fund and the Transportation Vehicle Fund.

Capital Projects Fund. This fund is used to account for resources set aside for the acquisition and construction of capital assets.

Transportation Vehicle Fund. This fund is used to account for the purchase, major repair, rebuilding, and debt service expenditures related to pupil transportation equipment.

#### Debt Service Fund

This fund is used to account for the accumulation of resources for and the payment of matured general long-term debt principal, interest, and related expenditures.

#### Special Revenue Funds

These funds account for the proceeds of specific revenue sources that are legally restricted for specific purposes. The Associated Student Body Fund (ASB Fund) is the only fund of this type. This fund is accounted for as a special revenue fund since the financial resources legally belong to the district.

#### Permanent Funds

These funds are used to report resources legally restricted such that only earnings, and not principal, may be used to support the district's programs.

#### FIDUCIARY FUNDS

Fiduciary funds that include pension (and other employee benefit) private-purpose trust funds, and agency funds, are used to account for assets held by the district in a trustee and agency capacity.

Private-Purpose Trust Fund. This fund is used to account for resources legally held in trust where principal and income benefit individuals, private organizations, or other governments.

#### c. Basis of Accounting

The district's accounting policies, as reflected in the accompanying financial statements, conform to the *Accounting Manual for Public School Districts in the State of Washington*, issued jointly by the State Auditor and the Superintendent of Public Instruction by the authority of RCW 43.09.200, RCW 28A.505.140, RCW 28A 505.010(1), and RCW 28A.505.020. This manual allows for a practice that differs from generally accepted accounting principles in the following manner:

- (1) Districtwide statements are not presented.
- (2) The financial statements do not report capital assets.
- (3) Debt is not reported on the face of the financial statements. It is reported on the notes to the financial statements and on the Schedule of Long-Term Debt. The Schedule of Long-Term Debt is required supplemental information.
- (4) The original budget is not presented. This information is available through the Office of Superintendent of Public Instruction.
- (5) The Management Discussion and Analysis is not required.

The modified accrual basis of accounting is used for all governmental funds. Revenues are recognized as soon as they are both measurable and available. "Measurable" means the amount of the transaction can be determined and the district considers all revenues available if they are collected within 60 days after year end to pay liabilities of the current period. However, categorical program claims and inter-district billings are measurable and available and are, therefore, accrued.

Expenditures are recognized under the modified basis of accounting when the related fund liability is incurred, except for unmatured principal and interest on long-term debt which are recorded when due. The fund liability is incurred when the goods or services have been received. For federal grants, the recognition of expenditures is dependent on the obligation date, (obligations means purchased order issued, contracts awarded, or goods and services received).

All governmental funds' reporting focuses primarily on the sources, uses, and balances of current financial resources and often has a budgetary orientation. This means that only current assets and current liabilities are included on their balance sheets.

d. Budgetary Data

General Budgetary Policies

Chapter 28A.505 RCW and Chapter 392-123 *Washington Administrative Code* (WAC) mandate school district budget policies and procedures. The board adopts the budget after a public hearing. An appropriation is a prerequisite to expenditure. Appropriations lapse at the end of the fiscal period.

Budgetary Basis of Accounting

For budget and accounting purposes, revenues and expenditures are accounted for on the modified accrual basis as prescribed in law for all governmental funds. Fund balance is budgeted as available resources and, under statute, may not be negative, unless the district enters into binding conditions with state oversight pursuant to RCW 28A.505.110.

Encumbrances

Encumbrance accounting is employed in governmental funds. Purchase orders, contracts, and other commitments for the expenditure of moneys are recorded in order to reserve a portion of the applicable appropriation. Encumbrances lapse at the end of the fiscal year and may be re-encumbered the following year.

e. Assets, Liabilities, and Fund Equity

All of the district's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

All of the district's investments during the year and at year end were insured or registered and held by the district or its agent in the district's name.

The district's investments as of August 31, 2011, are as follows:

	Carrying Amount	Market Value
County Treasurer's Investment Pool	8,795,785	8,795,785

Inventory

Inventory is valued at cost using the first-in, first-out (FIFO) method. The consumption method of inventory is used, which charges inventory as an expenditure when it is consumed. Management may reserve a portion of fund balance in any amount as a budgetary technique to ensure the

availability of resources at the appropriate time. USDA commodity inventory consists of food donated by the United States Department of Agriculture. It is valued at the prices paid by the USDA for the commodities.

f. Revenue and Expenditure Recognition

Debt Service

Principal and interest on general long-term debt is recognized only when due.

Property Taxes

Property tax revenues are collected as the result of special levies passed by the voters in the district. Taxes are levied on January 1. The taxpayer has the option of paying all taxes on April 30 or one-half then and one-half on October 31. Typically, slightly more than half of the collections are made on the April 30 date. The October 31 collection is not available in time to cover liabilities for the fiscal period ended August 31. Therefore, the fall portion of property taxes is not accrued as revenue. Instead, the taxes due on October 31 are recorded as deferred revenue.

Compensated Absences

Employees earn sick leave at a rate of 12 days per year up to a maximum of one contract year.

Under the provisions of RCW 28A.400.210, sick leave accumulated by district employees is reimbursed at death or retirement at the rate of one day for each four days of accrued leave, limited to 180 accrued days. This chapter also provides for an annual buy out of an amount up to the maximum annual accumulation of 12 days. For buy out purposes employees may accumulate such leave to a maximum of 192 days, including the annual accumulation, as of December 31 of each year.

These expenditures are recorded when paid, except termination sick leave that is accrued upon death, retirement, or upon termination provided the employee is at least 55 years of age and has sufficient years of service. Vested sick leave was computed using the vesting method

Vacation pay, including benefits, that is expected to be liquidated with expendable available financial resources is reported as expenditures and a fund liability of the governmental fund that will pay it.

No unrecorded liability exists for other employee benefits.

g. Fund Balance – May contain nonspendable amounts, restrictions, commitments, or assignments.

Nonspendable fund balance amounts are those assets of the school district that are not in spendable format. These can be in the form of inventory items, or amounts that have been received that are legally or contractually required to be maintained intact.

Restrictions are legal restrictions placed on spending of the fund balance of a district based upon statute, WAC or other legal requirements beyond the discretion of the board of directors of the district. Examples include anticipated carryover or recovery of revenues previously received and restricted as to usage.

Commitments represent formal actions taken by the board of directors to commit funds for specific purposes. Funds that have been committed cannot be used for another purpose unless the board of directors takes a specific action to end the commitment.

The board of directors has established a minimum fund balance policy for the general fund to provide for financial stability and contingencies within the district. The policy is that the district shall maintain four percent of total appropriations. For the 2010-11 fiscal year, the amount Committed to this minimum fund balance policy is \$1,896,307, which is included in the amount reported as Committed Fund Balance on the financial statements.

Assignments are used to set aside financial resources for specific purposes. These accounts reflect tentative management plans for future financial resource use such as the replacement of equipment or the assignment of resources for contingencies.

**Note 2 Capital Assets**

The district’s capital assets are insured in the amount of \$100,000,000 for fiscal year 2010-11. In the opinion of the district’s insurance consultant, this amount is sufficient to adequately fund replacement of the district’s assets.

**Note 3 Pensions**

**A. General Information**

Substantially all Yelm Community School District full-time and qualifying part-time employees participate in one of the following three contributory, multi-employer, cost-sharing statewide retirement systems managed by the Washington State Department of Retirement Systems (DRS): Teachers’ Retirement System (TRS), Public Employees’ Retirement System (PERS) and School Employees’ Retirement System (SERS). Participation in the programs was as follows:

Membership by retirement system program as of June 30, 2010:

<u>Program</u>	<u>Active Members</u>	<u>Inactive Members</u>	<u>Vested</u>	<u>Retired Members</u>
TRs	66,325	8,950		40,570
PERS	156,526	28,860		76,899
SERS	52,339	9,700		5,384

Certificated public employees are members of TRS. Noncertificated public employees are members of PERS (if Plan 1) or SERS.

Plan 1 under the TRS and PERS programs are defined benefit pension plans whose members joined the system on or before September 30, 1977. Plan 1 members are eligible to retire with full benefits after five years of credited service and attainment of age 60, after 25 years of credited service and attainment of age 55, or after 30 years of credited service.

Plan 2 under the TRS or SERS programs are defined benefit pension plans whose members joined on or after October 1, 1977, but before June 30, 1996 or August 31, 2000, for TRS or SERS programs, respectively. Members of TRS and SERS are eligible to retire with full benefits after five years of credited service and attainment of age 65, after 20 years of credited service and attainment of age 55 with the benefit actuarially reduced from age 65, or 30 years of credited service and receive either a reduced benefit or stricter return-to-work rules.

Plan 3 under the TRS and SERS programs are defined benefit, defined contribution pension plans whose members joined on or after July 1, 1996, or September 1, 2000, for TRS and SERS,



respectively. Members are eligible to retire with full benefits at age 65, or they may retire at age 55 with at least ten service years with a reduced benefit amount, or they may retire at age 55 with at least 30 service years and receive either a reduced benefit or stricter return-to-work rules.

Average final compensation (AFC) of Plan 1 TRS and PERS members is the highest average salary during any two consecutive years. For Plan 2 and Plan 3 TRS and SERS members, it is the highest average salary during any five consecutive years.

The retirement allowance of Plan 1 TRS and PERS members is the AFC multiplied by 2 percent per year of service capped at 60 percent with a cost-of-living adjustment. For Plan 2 TRS and SERS members, it is the AFC multiplied by 2 percent per year of service with provision for a cost-of-living adjustment. For the defined benefit portion of Plan 3 TRS and SERS it is the AFC multiplied by 1 percent per year of service with a cost-of-living adjustment.

The employer contribution rates for PERS, TRS, and SERS (Plans 1, 2, and 3) and the TRS and SERS Plan 2 employee contribution rates are established by the Pension Funding Council based upon the rates set by the Legislature. The employee contribution rate for Plan 1 in PERS and TRS is set by statute at 6 percent and does not vary from year to year. The employer rate is the same for all plans in a system. The methods used to determine the contribution requirements are established under chapters 41.40, 41.32, and 41.35 RCW for PERS, TRS and SERS respectively.

The district contribution represents its full liability under both systems, except that future rates may be adjusted to meet the system needs.

#### B. Contributions

Employee contribution rates effective September 1, 2010 through August 31, 2011:

Plan 1 TRS	6.0%	Plan 1 PERS	6.0%
Plan 2 TRS	3.36%	Plan 2 SERS	3.15%
Plan 3 TRS and SERS	5.00% (minimum),	15.00% (maximum)	

For Plan 3 TRS and SERS, rates adjusted based upon age may be chosen. The optional rates range begins at 5 percent and increase to a maximum of 15 percent.

Employer contribution rates as of effective September 1, 2010 through August 31, 2011:

Plan 1 TRS	6.14%	Plan 1 PERS	7.07% <sup>†</sup>
Plan 2 TRS	6.14%	Plan 2 SERS	5.45%
Plan 3 TRS	6.14%	Plan 3 SERS	5.45%

<sup>†</sup>Rate effective July 1, 2011 through August 31, 2011.. From September 1, 2010 through June 30, 2011, the rate was 5.31%.

Under current law the employer must contribute 100 percent of the employer-required contribution. Employer required contributions in dollars (Participant information for all plans is as of August 31):

<u>Plan</u>	<u>FY 10-11</u>
Plan 1 TRS	\$ 52,187.77
Plan 2 TRS	\$264,807.61
Plan 3 TRS	\$910,691.68
Plan 1 PERS	\$ 12,215.70
Plan 2 SERS	\$142,294.24
Plan 3 SERS	\$271,123.37

Historical trend information showing TRS, PERS and SERS progress in accumulating sufficient assets to pay benefits when due is presented in the state of Washington's June 30, 2011, comprehensive annual financial report. Refer to this report for detailed trend information. It is available from:

State of Washington  
Office of Financial Management  
300 Insurance Building  
PO BOX 43113  
Olympia, WA 98504-3113

#### **Note 4 Deferred Compensation Plans**

##### **457 Plan – Deferred Compensation Plan**

District employees have the option of participating in an IRC, Section 457, deferred compensation plan administered by the state deferred compensation plan, or the district.

##### **403(b) Plan – Tax Sheltered Annuity (TSA)**

The district offers a tax deferred annuity plan for its employees. The plan permits participants to defer a portion of their salary until future years under two types of deferrals: elective deferrals (employee contribution) and non-elective contribution (employer matching).

The district complies with IRS regulations that require school districts to have a written plan to include participating investment companies, types of investments, loans, transfers, and various requirements. The plan is administered by a third party administrator. The plan assets are assets of the SD employees, not the school district, and are therefore not reflected on these financial statements.

#### **Note 5 Risk Management**

Yelm Community Schools is a member of the Schools Insurance Association of Washington. Chapter 48.62 RCW authorizes the governing body of any one or more governmental entities to form together into or join a pool or organization for the joint purchasing of insurance, and/or joint self-insuring, and/or joint hiring or contracting for risk management services to the same extent that they may individually purchase insurance, self-insure, or hire or contract for risk management services. An agreement to form a pooling arrangement was made pursuant to the provisions of Chapter 39.34 RCW, the Interlocal Cooperation Act. The pool was formed on September 1, 1995 when 7 mid-size school districts in the State of Washington joined together by signing an Interlocal Agreement to pool their self-insured losses and jointly purchase insurance and administrative services. Presently, the SIAW pool has 44 member districts.

The pool allows members to jointly purchase insurance coverage and provide related services, such as administration, risk management, claims administration, etc. Coverage for Wrongful Act Liability and Employee Benefit Liability is on a "claims made basis". All other coverage's are on an "occurrence basis". The pool provides the following forms of group purchased insurance coverage for its members: Property, earthquake, liability, automotive liability, equipment breakdown, crime, employee benefits and wrongful act liability.

The pool acquires liability insurance from unrelated underwriters that are subject to a per-occurrence deductible of \$100,000. Members are responsible for the first \$2,500 of the deductible amount of each claim, while the pool is responsible for the remaining \$97,500. Insurance carriers cover insured losses over \$100,000 to the limits of each policy. Since the pool is a cooperative program, there is a joint liability among the participating members towards the sharing of the

\$97,500 portion of the deductible. The pool also purchases a Stop Loss Policy in the amount of \$3,465,000 which it fully funds in its annual budget.

Property insurance is subject to a per-occurrence deductible of \$250,000. Members are responsible for the first \$10,000 of the deductible amount of each claim, while the pool is responsible for the remaining \$250,000.

Equipment breakdown insurance is subject to a per-occurrence deductible of \$10,000. Members are responsible for the deductible amount of each claim.

Members contract to remain in the pool for one year and must give notice before December 31 before terminating participation the following September 1. Renewal of the Interlocal Agreement occurs automatically each year. Even after termination, a member is still responsible for contributions to the pool for any unresolved, unreported, and in-process claims for the period they were a signatory to the Interlocal Agreement.

The pool is fully funded by its member participants. Claims are filed by members with Canfield & Associates, Inc.; which has been contracted to perform pool administration, claims adjustment and administration and loss prevention for the pool. Fees paid to the third party administrator under this arrangement for the year ended August 31, 2011 were \$3,146,313.

A governing board is selected by the membership and is responsible for conducting the business affairs of the pool. The Board of Directors has contracted with Canfield & Associates, Inc. to perform day-to-day administration of the pool. This pool has no employees.

## **Note 6 Debt**

### **Long-Term Debt**

Bonds payable at August 31, 2011, are comprised of the following individual issues:

Issue Name	Amount Authorized	Annual Installments	Final Maturity	Interest Rate(s)	Amount Outstanding
2010 UTGO REF.	37,595,000	680,000-4,855,000	12/1/22	2.00%-5.00%	36,915,000
2003 G.O. Bonds	46,015,000	1,765,000-5,055,000	12/1/13	2.00%-5.00%	4,410,000
2001A	222,563	7,175-10,003	12/1/12	4.53%	30,005
2004A	1,013,309	98,833	06/1/17	3.86%	524,833
2004B	842,861	84,202-87,439	12/1/17	3.99%	473,697
2009A	2,000,000	70,000-145,000	12/1/22	2.00%-4.55%	1,930,000
2009B	2,000,000	105,000-145,000	6/16/22	1.95%	1,895,000
Total G.O. Bonds					46,178,535

The following is a summary of general obligation long-term debt transactions of the district for the fiscal year(s) ended August 31, 2011:

Long-Term Debt Payable at 9/1/10	47,533,775
New Issues	37,595,000
Debt Retired	38,950,240
Long-Term Debt Payable at 8/31/2011	46,178,535

The following is a schedule of annual requirements to amortize long-term debt at August 31, 2011:

Years Ending August 31,	Principal	Interest	Total
2012	2,838,351	1,672,115	4,510,467
2013	3,039,640	1,572,843	4,612,483
2014	3,060,159	1,459,900	4,520,059
2015	3,316,075	1,340,702	4,656,776
2016	3,557,541	1,211,726	4,769,267
2017-2021	21,066,769	3,957,962	25,024,731
2022-2026	8,750,000	480,547	9,230,547
2027-2030	550,000	51,187	601,187
Total	46,178,535	11,746,982	57,925,517

At August 31, 2011 the district had \$1,880,677 available in the Debt Service Fund to service the general obligation bonds.

#### Refunded Debt

On October 7, 2010, the district issued \$37,595,000 million in general obligation bonds with an average interest rate of 2.59 percent to advance refund \$36,015,000 million of outstanding 2003 series bonds with an average interest rate of 5.007 percent. The net proceeds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2003 series bonds. As a result, \$36,015,000 the 2003 series bonds are considered defeased.

#### **Note 7 Other Disclosures**

##### King County Director's Association

The district is a member of the King County Directors' Association (KCDA). KCDA is a purchasing cooperative designed to pool the member districts' purchasing power. The district's current equity of \$48,923.68 is the accumulation of the annual assignment of KCDA's operating surplus based upon the percentage derived from KCDA's total sales to the district compared to all other districts applied against paid administrative fees. The district may withdraw from the joint venture and will receive its equity in ten annual allocations of merchandise or 15 annual payments.

##### Educational Service District

The school district is served by Educational Service District No. 113. The ESD is a regional service entity organized to serve the educational needs of all school districts in Thurston, Lewis, Mason, Grays Harbor and Pacific Counties. All school districts in the ESD's service area collectively elect 7 directors to the ESD. Participating school districts have neither an ongoing financial interest nor responsibility. The ESD's relationship to the school district is one of a jointly governed organization.

The school district participates in the Traffic Safety Education cooperative where the ESD provides vehicles and driver trainers for both the classroom and behind the wheel instruction. For this service the district is billed for the per student state allocation plus a mutually agreed additional amount per student for these services.

## Unemployment Compensation Insurance

The ESD 113 Unemployment Insurance Fund was formed on January 1, 1978, when school districts and ESD 113 joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses. Thirty-four school districts in the State of Washington and ESD 113 have joined the unemployment pool. The purpose of this fund is to share the risk of unemployment compensation claims arising from previous employees of the member school districts and ESD 113. Member districts pay a percentage of their employee's wages up to a legally prescribed "base salary". These contributions plus investment earnings pay for unemployment claims and for the administration of the fund. Each member district must maintain a minimum balance in the fund. This minimum balance is based on one and one-half percent of taxable wages paid during the prior calendar year.

## Workers' Compensation Insurance

The ESD 113 Workers' Compensation Trust was formed in the spring of 1983 when school districts and ESD 113 joined together by signing an Interlocal Governmental Agreement to pool their self-insured losses. Forty-three school districts in the State of Washington and ESD 113 have joined the workers' compensation pool.

This fund is used to account for all the financial resources belonging to member districts participating in this self-insurance program. The purpose of this fund is to provide workers' compensation insurance benefits to employees injured in the course of their employment with the member school districts and ESD 113.

The program is financed by contributions made by the member districts on a monthly basis. Contributions are based on the number of worker hours reported for the month and the member district's individual premium rates for the two reporting classes, 6103 (certificated, administrative, and clerical) and 6104 (classified, except administrative and clerical). The fund also collects the supplemental pension assessment which is forwarded in total to the Department of Labor and Industries each quarter. A district's premium rates are determined by historical claims data as well as by the total collection requirement of the fund.

The rate structure is determined by using a method prescribed in WAC 296-15-151. The first method is to collect based on the fund's total hours using the rates prescribed by the Department of Labor and Industries plus a 25% contingency. Since group self-insurers are required to purchase aggregate retention coverage, the second method is to fund to the level of the aggregate retention. This amount is estimated at the beginning of each coverage period and will vary from year to year. The aggregate retention represents the maximum liability for claims filed in each coverage period. With this method the fund must also provide adequate resources for future administrative costs of the program should the fund cease to exist.

In each year, except for FY 1984-85, method one was used as it resulted in lower premium rates for the member districts. Eventually the fund will be able to base its overall collections on the actual expected cost of its claims and administrative expenses by determining an estimated liability amount for each claim. This estimated liability amount represents the expected cost of a given claim over its life.

The Trust's outstanding claim related obligations net of self-insured retention and aggregate stop-loss coverage as of August 31 each year is estimated by an independent third party actuarial firm. Beginning in 2004-05, the full undiscounted liability is carried on the Trust balance sheet. In prior years, the actuarial liability was discounted for future investment earnings as estimated by the actuarial firm.

### Property and Liability Insurance Proprietary Fund

The purpose of this fund, begun in FY 1986-87, is to self-insure against various types of liability and property damage claims filed against the forty member districts and ESD 113. Member districts paid a contribution based on their enrollment, number of vehicles, property valuation, and previous loss history. These contributions plus investment earnings pay for liability and property damage claims and for the administration of the fund.

Beginning with September 1, 2000, one district ceased assuming future risks through the ESD 113 Insurance Cooperative (EIC) and purchased insurance from another entity. Effective September 1, 2002, nine more districts began to purchase insurance from other entities. Additional members intended to leave the Cooperative the following year. On August 20, 2003, the Advisory Board voted to begin to close down the Cooperative. This action was taken because the current insurance market offered much lower premiums to districts acting individually than to districts acting as a cooperative. All members had purchased insurance from another entity by September 1, 2003.

Closing down the Insurance Cooperative means that the Cooperative will assume no new risks as of September 1, 2003. The Cooperative continues, however, to be responsible for the resolution of all open claims as of August 31, 2003 and other liabilities arising from the time of operation of the Cooperative up to that date.

Liabilities assumed in prior years include both the 2 open claims for the period 1996-2003, and the incurred but not yet reported (IBNR) liabilities for the period 9/1/1986 – 8/31/2003. An example of an IBNR might be abuse of a student which occurred many years ago, and was first claimed and reported in 2008. For each claim, the Insurance Cooperative is liable for the single incident retention limit set by the insurance policy the EIC purchased in the year the claim occurred. For 2002-03 this amount was \$100,000. In 2001-02 the amount was \$75,000. Prior years had lesser amounts. All claim settlements will be paid out of Cooperative assets.

Provisions of the Cooperative agreement echoing Chapter 48.62 RCW and Chapter 236-22 WAC require that remaining assets only be distributed after all financial and legal obligations of the EIC have been resolved.

### **Note 8 Subsequent Events**

There were no events after the balance sheet date that would have a material impact on the next or future years.

Yelm School District No. 002  
Schedule of Long-Term Debt

For the Year Ended August 31, 2011

Description	Beginning Outstanding Debt September 1, 2010	Amount Issued/Increased	Amount Redeemed/Decreased	Ending Outstanding Debt August 31, 2011
Total Voted Bonds	42,340,000.00	37,595,000.00	38,610,000.00	41,325,000.00
Total Non-Voted Notes/Bonds	3,193,774.49	0.00	235,239.91	2,958,534.58
Qualified Zone Academy Bonds (QZAB)	0.00	0.00	0.00	0.00
Qualified School Construction Bonds (QSCB)	2,000,000.00	0.00	105,000.00	1,895,000.00
<b>Other Long-Term Debt:</b>				
Capital Leases	0.00	0.00	0.00	0.00
Contracts Payable (GL 603)	0.00	0.00	0.00	0.00
NonCancellable Operating Leases	0.00	0.00	0.00	0.00
Claims & Judgments	0.00	0.00	0.00	0.00
Compensated Absences	1,110,617.17	21,926.93	109,738.66	1,022,805.44
Other Long-Term Debt	0.00	0.00	0.00	0.00
Total Other Long-Term Debt	1,110,617.17	21,926.93	109,738.66	1,022,805.44
<b>TOTAL LONG-TERM DEBT</b>	48,644,391.66	37,616,926.93	39,059,978.57	47,201,340.02

Yelm Community Schools #2  
Thurston County  
Schedule of Expenditure of Federal Awards  
For Fiscal Year Ending August 31, 2011

Federal Catalog Number	Federal Agency Name	Federal Program Title	Pass Thru Agency	Pass Thru Amount	Direct Fund Amount	Total Funds Expended	Foot Note
10.555	U.S. Department of Agriculture	Non-Cash Assistance (Commodities)	OSPI	100,050		100,050	2
10.553		School Breakfast Program	OSPI	218,349		218,349	
10.555		Natl School Lunch Program	OSPI	803,681		803,681	
10.665		Secure Payments for States and Counties Containing Federal Lands	Office of State Treasurer	204		204	
<b>Dept of Agriculture Subtotal</b>				<b>1,122,284</b>	<b>-</b>	<b>1,122,284</b>	
12.556	U.S. Department of Defense	Competitive Grants: Promoting K-12 Student Achievement at Military Connected Schools		-	130,575	130,575	
<b>Department of the Interior Subtotal</b>				<b>-</b>	<b>130,575</b>	<b>130,575</b>	
45.025	National Endowment for the Arts	Promotion of the Arts Partnership Agreements	Washington State Arts Commission	10,000		10,000	
45.310	Institute of Museum and Library Services	Grants to States		-	33,497	33,497	
<b>National Endowment for the Arts Subtotal</b>				<b>10,000</b>	<b>33,497</b>	<b>43,497</b>	
84.010	U.S. Department of Education	Title 1, Part A, Grant to LEAs	OSPI	759,595		759,595	
84.027		Special Education—Grants to States	OSPI	1,327,864		1,327,864	
84.173		Special Education—Preschool Grants	OSPI	23,631		23,631	
84.041		Impact Aid (Title VIII of ESEA)			84,981	84,981	
84.048		Career and Technical Education - Basic Grants to States (Perkins IV)	OSPI	30,565		30,565	
84.060		Native American Education			36,376	36,376	
84.243		Tech-Prep Education	SPSCC	2,000		2,000	
84.318		Education Technology State Grants	OSPI	4,099		4,099	
84.365		English Language Acquisition Grants	NW ESD #189	14,038		14,038	
84.367		Improving Teacher Quality State Grants	OSPI	194,575		194,575	
84.386		ARRA - Education Technology State grants, Recovery Act	OSPI	10,892		10,892	
84.389		ARRA - Title 1 Grants to Local Educational Agencies, Recovery Act	OSPI	236,476		236,476	
84.391		ARRA - Special Education Grants to States, Recovery Act	OSPI	526,052		526,052	
84.394		ARRA - State Fiscal Stabilization Fund	OSPI	938,698		938,698	
84.410		Education Jobs Fund	OSPI	521,035		521,035	
<b>Dept of Education Subtotal</b>				<b>4,589,520</b>	<b>121,357</b>	<b>4,710,877</b>	
93.778	Department of Health and Human Services	Medical Assistance Program	DSHS	193,113		193,113	
<b>Dept of Health &amp; Human Services Subtotal</b>				<b>193,113</b>	<b>-</b>	<b>193,113</b>	
<b>Totals</b>				<b>5,914,917</b>	<b>285,429</b>	<b>6,200,346</b>	

The accompanying notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.



## **NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

### **NOTE 1—BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is prepared on the same basis of accounting as the Yelm Community Schools financial statements. Yelm Community Schools uses the modified accrual basis of accounting. Expenditures represent only the federally funded portions of the program. District records should be consulted to determine amounts expended or matched from non-federal sources.

### **NOTE 2—NONCASH AWARDS**

The amount of commodities reported on the schedule is the value of commodities received by the school district during the current year and priced as prescribed by the USDA.

### **NOTE 3—AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009**

Of the amount shown for this program, \$1,712,118 was paid from ARRA funds.



## **ABOUT THE STATE AUDITOR'S OFFICE**

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The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Chief of Staff**  
**Chief Policy Advisor**  
**Director of Audit**  
**Director of Performance Audit**  
**Director of Special Investigations**  
**Director for Legal Affairs**  
**Director of Quality Assurance**  
**Local Government Liaison**  
**Communications Director**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

**Brian Sonntag, CGFM**  
**Ted Rutt**  
**Doug Cochran**  
**Jerry Pugnetti**  
**Chuck Pfeil, CPA**  
**Larisa Benson**  
**Jim Brittain, CPA**  
**Jan Jutte, CPA, CGFM**  
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